



photo by Petty Officer 1st class Anthony M. Koch, U.S. Navy

Virginia Indicators

THIRD QUARTER 2004 DATA WITH YEAR-END AREA EMPLOYMENT AND JOBLESS PROJECTIONS

By William F. Mezger, Chief Economist

Most indications are the Virginia economy was also seeing strong growth in the last half of 2004. In fact, Virginia appears at the present time to have about the best combination of good job growth and low unemployment in the country. The indicator series in the third quarter seems to be giving below-par readings because the U.S. Bureau of Labor Statistics is currently doing extensive sample revision work on the four Virginia hours and earnings series—average weekly hours, total production hours, average hourly earnings, and average weekly earnings—in the hopes of expanding the scope of the data available at some future date. While this work is going on, the Virginia Employment Commission feels the estimates from these series are probably on the low side and are less than reliable. We feel they are presently not fully portraying what is going on in the otherwise very good Virginia economy. Of course, the hours and earnings series make up four of our fourteen indicator series (29 percent), so we feel they are casting a negative bias on the whole series. As always, there is the problem the current fourteen indicators are the **only** series that are available at the state level on a monthly basis (for the nation, there are approximately 50 series available, but most of these do not exist at the state level).

With the above said, Third Quarter 2004's indicators performance was as follows:

- July had five series up, two unchanged, and seven down.
- August had two series up, three unchanged, and nine down. (The mid-quarter month often is the weakest.)
- September had nine series up, two unchanged, and three down. (The three series down were all hours and earnings items.)

Even with the hours and earnings series problems, there were some records set in Virginia in Third Quarter 2004. Nonagricultural wage and salary employment achieved a new seasonally adjusted high of 3,588,300 in July. Taxable retail sales reached a new peak of \$7,880 million in September. Production worker total hours were at a new low of 9,165,000 in September.

The six-month moving average of rising indicators on page 15 serves to illustrate the quarter's performance. The moving average enhances analysis because it smoothes out much of the irregularity present in many of the individual series.

Around the State

End-of-the-year projections show all of the state's metropolitan areas saw job growth return in 2004, following the lead of boomy Northern Virginia, which resumed strong job growth in 2003, and rock-steady Hampton Roads, which recent estimate revisions now show never had a recession in 2001 and 2002, thanks to bolstered federal defense and homeland security spending. Rural areas above Interstate 64 have generally done much better than those below Interstate 64, but job growth has resumed almost everywhere, except for a few jurisdictions along the North Carolina border.

Virginia continues to have about the best combination of good job growth and low unemployment in the country.

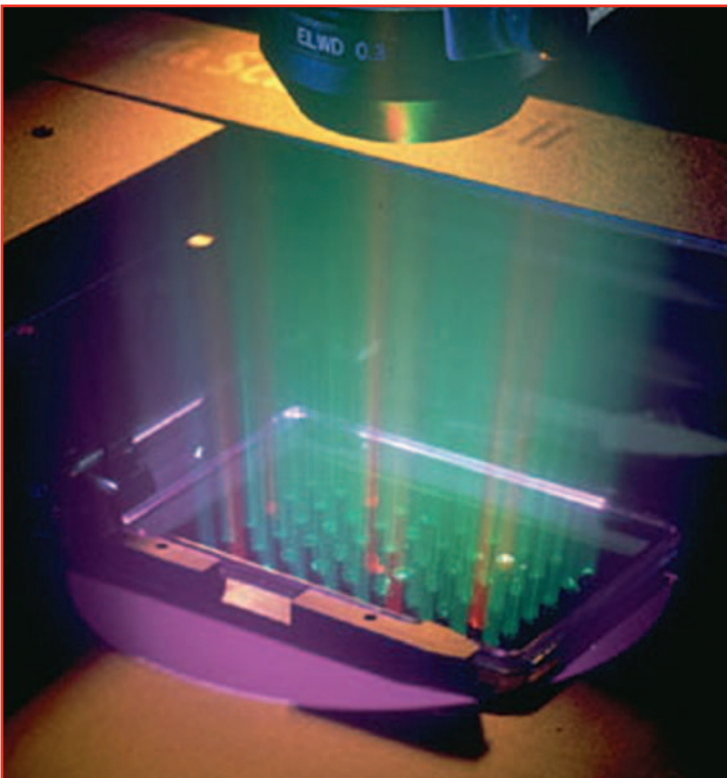
All of the state's metropolitan areas saw job growth return in 2004, following the leads of boomy Northern Virginia and rock-steady Hampton Roads.

- **Northern Virginia**, which now has about a third of all the jobs in the state with a nearly 1.3 million nonfarm employment base, saw a return to strong job growth in 2003 and then built on this base in 2004. Northern Virginia added 45,000 jobs in 2004 for a 3.5 percent job gain. Northern Virginia was the engine of Virginia's job growth train throughout the 1980s and 1990s and has clearly resumed this position. The Northern Virginia professional and business services sector has once again led the way for state and even national job growth recovery. These firms in software design, engineering, architecture, research and development, and business management and consulting, clustered in Alexandria, Arlington, Fairfax, and around the Capital beltway have become the nation's and, to some extent, the world's thinkers, innovators, and creators; and they have to do "their thing" before much of the rest of the nation and the world can recover. As always, these firms are undergirded by their contracting with the U.S. federal government, which is why many of them located where they did in the 1960s, 1970s, and 1980s; but contracting with the federal government now constitutes only 30 to 40 percent of their business, and the rest is with customers throughout the world. This sophisticated range of service-providing enterprises is made up of many innovative, flexible, and ambitious small firms that are now hiring new technical workers. The region's professional and business services firms, which now employ over 300,000 workers, have added 15,000 high-skill, high-income jobs in 2004 for

a five percent gain and provide the backbone and catalyst for both the region's and Virginia's job growth resurgence.

With this region having one of the nation's top household and per capita income levels, trade and transportation employment has rebounded with over 7,000 jobs. The region's red hot real estate market never slowed much in 2001 and 2002, thanks to low-cost financing. Construction surged ahead at close to 5,000 jobs per year, or 6 percent. Continued federal government hiring in defense and homeland security along with staffing in local school systems has added 5,000 jobs to government employment. Finally in 2004 this region's leisure and hospitality industry, adding over 3,000 jobs, now seems finally recovered from the devastating impacts of the September 11, 2001, terrorist attacks and the 2002 sniper incidents. Even manufacturing is once again positive with over 1,000 jobs added. **Unemployment** in Northern Virginia has been falling all year and by fall 2004 was in the 2.0 percent or lower labor-shortage category.

- **Norfolk-Virginia Beach-Newport News, Virginia/North Carolina**, the state's second-largest metropolitan area, has a nonfarm employment base of almost 750,000. This area, which continued to add jobs right through the 2001 and 2002 recession years, thanks to stepped-up national defense and security measures, remained on its steady 11,000, or 1.5 percent, growth track in 2004. The growth trend continues even with the negative impact of deployments of military personnel stationed in the area to Iraq and Afghanistan. The negative impact of the deployments to the local economy is to some extent offset by the fact that much of the supplies to support the military efforts in Iraq and Afghanistan are shipped through the port of Hampton Roads. Both the 100,000-strong professional and business services sector, up 2,000 jobs, and the 60,000-strong manufacturing sector, up 1,000 jobs, benefit from defense and military contracts; and there was growth of 500 in federal civilian government employment, which provides 46,000 jobs locally. The 83,000-job leisure and hospitality sector added 4,000 jobs in 2004. Tourism, long a staple of this area's economy, and even historic attractions seemed to benefit this year from higher gas prices and "fear and hassle of flying" causing travelers from the nearby populous Northeast to vacation at Virginia oceanfront resorts, theme parks, and historic attractions. **Unemployment** in Hampton Roads has held right at 4 percent, which is still quite low, considering that the normal turnover of military dependents in this area adds at least 1 percentage point to the jobless rate.



- **Richmond-Petersburg**, the third-largest Virginia metropolitan area, saw a resumption of job growth to the tune of about 9,000 jobs, or 1.5 percent, to its 570,000 nonfarm job base. The private education/health care sector (Richmond is something of a health care and education center for the Southeast) with about 6 percent growth provided half of the region's 2004 job gain. With the better budget situation, state government, the region's largest single employer with 41,000 employment, has resumed limited hiring. Although fears of retrenchment at Capital One, the region's largest private employer, have made media headlines, they have thus far been more than offset by gains in other financial subsectors. New corporate headquarters employment and two new shopping centers opening late in 2003 have added to the employment base. The 44,000 manufacturing base has been neutral in 2004. **Unemployment** has drifted just below 4 percent in 2004.
- **Roanoke**, Virginia's fourth-largest metropolitan area in size, saw a return to slightly positive job growth in 2004, gaining about 1.0 percent. Employment in the region's traditional mainstay industries of trade and transportation, private education and health care, and manufacturing has been basically neutral in 2004, after minor losses the two previous years. There was some job growth in the remaining services and support categories. **Unemployment** has drifted below 3 percent, making the Roanoke area the third-lowest Virginia metro area, and it has been among the 20-best U.S. metro areas in 2004.
- **Lynchburg**'s nonfarm employment level at 100,000 has been largely neutral in 2004. Manufacturing and the private colleges have added a few jobs in 2004, but trade and services are still soft. **Unemployment** has dropped from mid-four percent to mid-three percent with an end to factory layoffs.
- **Charlottesville** has seen occasional minor spurts of growth this year in its dominant university/hospital employment sector and in the industries that support it. The university and the hospital and the industries that support them provide about a quarter of the Charlottesville area's 88,000 nonfarm employment base. After significant layoffs in 2003, manufacturing employment has returned to a neutral stance. **Unemployment** has improved from 3 percent last year to just above 2 percent this year. In 2004, the Charlottesville area has usually been included most months among the ten-best unemployment areas in the U.S.
- **Danville** has seen nearly 1 percent job growth in 2004 in its 44,000 nonfarm employment base. Some growth in most other sectors has more than offset occasional temporary and permanent factory furloughs. **Unemployment** remains

around 7 percent because of the factory job drain for the highest jobless level of Virginia's current metropolitan areas.

- **Bristol, Virginia**, the state's smallest metropolitan area, had stable to slightly positive job growth in 2004. Overall there seemed to be fewer factory inventory adjustment furloughs this year. **Unemployment** was generally between 4 and 5 percent with the occasional spurt to 6 percent caused by factory furloughs.

Virginia will have three new metropolitan areas in 2005—Blacksburg, Harrisonburg, and Winchester.

- **Blacksburg**'s nonfarm employment base, which is heavily influenced by the dominant state educational institutions of Virginia Tech and Radford University, recovered from factory losses at the end of 2003 to nearly 2 percent job growth for 2004. Education employment and the technology industries located around Virginia Tech are factors in this comeback. **Unemployment** improved from 4 percent to 3 percent as a consequence.
- **Harrisonburg**, another new metro area with a dominant public university employer, James Madison University, saw between 1 and 2 percent job growth until a poultry industry factory closing late this year turned employment growth slightly negative. **Unemployment** is currently 3 percent, up from 2.5 percent last year because of this situation.
- **Winchester** has been adding jobs at a 1.5 percent to 2.0 percent rate in 2004, its employment expansion benefiting in part from its proximity to the booming large Northern Virginia metro area. **Unemployment** in the Winchester area has fallen from just over 3 percent last year to just over 2 percent in 2004.
- The **non-metro balance of the state** was experiencing an overall 2-plus percent growth rate, but some balance of state areas above Interstate 64 were growing faster than that.

Generally, the **Shenandoah Valley**, **eastern slopes of the Blue Ridge Mountains**, **Northern Neck**, and **Eastern Shore** are benefiting from spin-off growth from Northern Virginia. On the other hand, areas along the North Carolina border, like **Martinsville city**, **Henry County**, **Patrick County**, **Emporia city**, and **Galax city**, were still losing employment especially in the old-line manufacturing industries of textiles, furniture, apparel, and foods. As a consequence, the above-mentioned areas have the highest **unemployment** rates with the Martinsville, Henry, and Patrick labor market areas usually being double digit. The coalfield counties of **Buchanan**, **Dickenson**, **Lee**, **Russell**, **Tazewell**, and **Wise**, which for years had the highest unemployment in the state, all now have

unemployment rates below 5 percent because of a renewed demand for coal and some new industries moving into this region. **Smyth County** has also experienced new jobs added in 2004. **Halifax** and **Mecklenburg** counties have seen unemployment drop below double digit mainly because of few recent new layoffs.

Hours and Earnings Sample Modifications Affect Four Key Virginia Indicators in the Third Quarter

Although not as much as the over 17,000 jobs necessary to register change on the tables on pages 14-15 for any month in the third quarter, nonagricultural wage and salary payroll employment did set a new all-time seasonally adjusted high of 3,588,300 in July 2004. August and September levels at 3,584,300 and 3,586,800, respectively, moved only slightly. Employment at the state's factories continued to decline throughout the third quarter and, at 293,500 in September 2004, was just above the 293,400 December 2003 all-time low. July's factory loss of 1,900 jobs, down from 297,400 in June to 295,500, registered as a decrease on the tables, but the smaller August and September losses showed no change.

The four unemployment-related indicators were mostly positive in direction in July, all negative in August, and all positive in September. The total unemployment rate stayed at the June level of 3.5 percent in July, rose to 3.6 percent in August, then dropped to 3.3 percent in September, the best level in over three years. Initial claims flip-flopped in direction this quarter, falling from 5,808 in June to 5,623 in July, going back up to 6,384 in August, and then dropping to 4,832 in September, the best level in nearly four years. The insured unemployment rate (the ratio of those drawing benefits to those eligible to draw) also seesawed this quarter, being down from 1.13 percent in June to 1.01 percent in July, back up to 1.27 percent in August, and then back down to 1.02 percent in September. Unemployment insurance final payments were also varied this quarter, going from 4,444 in June to 3,312 in July, 4,373 in August, and 3,453 in September.

The four hours and earnings series for production workers were basically negative all quarter. The length of the workweek drew slightly shorter, going from 41.6 hours in June to 40.5 hours in September as overtime hours were reduced. Production hours also fell off, going from 9,547,000 in June to 9,165,000 in September, the lowest level this series has recorded. The average hourly factory pay rate decreased from \$16.24 in June to \$16.01 by August, but then rose to \$16.11 for September. With the workweek and the pay rate both declining, average weekly wages (which is the hourly rate times the number of

hours worked) could only decrease, going from \$676.29 in June to \$651.02 in September. The Virginia Employment Commission is of the opinion these normally robust series are showing more of a decline at the present time than is probably actually happening in the economy. The U.S. Bureau of Labor Statistics is currently doing considerable sample revision work on these series in Virginia and other states in the hopes of expanding the data available to include all industries at some future date, and we think this process is causing some less than reliable hours and earnings estimates.

The sometimes fairly volatile four business indicator series were mixed in direction in both July and August, but then turned all positive by September. The single family housing permits were positive all quarter, going from 3,971 in June to 4,063 in July, 4,088 in August, and 4,832 in September. Interest rates starting to rise seemed to positively affect housing permits as people tried to get ahead of the increase. By the end of the quarter, Virginia housing starts were growing much faster than national housing starts, and that trend seemed to continue into the fourth quarter. New business incorporations were up from 1,580 in June to 1,741 in July, back down to 1,560 in August, then up again to 1,897 in September, the best level so far in 2004. New light vehicle sales were off from June's record 53,040, being down to 43,955 in July, but then recovered partially to 48,229 in August and 49,531 in September. Taxable retail sales were down from June's record \$7,872 million in both July and August, being \$7,662 million and \$7,218 million, respectively; then, with back-to-school shopping and the harvest bounced back to a new record of \$7,880 million in September.

